REVENUES

Federal revenues are taxes and other collections from the public that result from the government's sovereign or governmental powers. This section provides an overview of President Clinton's revenue proposals for the period 2001-2005. Revenues in the Clinton budget are expected to grow by $384.6 billion, or 19.7 percent, between 2000 and 2005. Over the five-year period 2001-2005, President Clinton's budget recommends a net tax cut of $4.4 billion.

OMB baseline revenues are projected to be 20.0 percent of GDP in 2001. If President Clinton's revenue proposals are adopted, taxes will reach 20.1 percent of GDP in 2001, rivaling only this year as the highest level as a percentage of the economy since World War II (when revenues to finance the war reached 20.9 percent of GDP in 1944).

	1999 Actuals	2000	2001	2002	2003	2004	2005
($ Billions)							
President's Budget:							
Revenues	1827.5	1956.3	2019.0	2081.2	2147.5	2236.1	2340.9
OMB Baseline:							
Revenues	1827.5	1955.7	2009.9	2079.6	2151.3	2238.2	2350.1
Budget compared to OMB Baseline:							
Revenues	---	+0.5	+9.1	+1.7	-3.9	-2.1	-9.2
(Percent of GDP)							
President's Budget:							
Revenues	20.0	20.4	20.1	19.8	19.6	19.4	19.4
OMB Baseline:							
Revenues	20.0	20.4	20.0	19.8	19.6	19.4	19.4

<u>The President's Tax Cuts</u>

- The President proposes gross tax reductions totaling $96 billion over five years and $331 billion over ten years.

The President proposes $14.2 billion of tax incentives over five years and $39.2 billion over ten years to address **education**:

- **College opportunity tax cut –** increase the existing Lifetime Learning credit rate from 20 to 28 percent. The credit would be phased out for married filers with incomes between $100,000 and $120,000. Taxpayers may elect to deduct expenses instead of claiming the credit. This would cost $11.1 billion over five years and $29.8 billion over ten years.

- **Tax credit for school construction or modernization** – would provide tax credits (in lieu of interest) to holders of up to $22 billion of "qualified school modernization bonds." In addition, tax credits would be available to holders of $400 million of bonds for the construction and renovation of Bureau of Indian Affairs funded schools. The President also proposes to expand the amount of qualified zone academy bonds that can be issued from $400 million to a total of $2.4 billion. The cost would be $2.4 billion over five years and $8.0 billion over ten years.

- **Deduction for interest paid on student loans** – eliminate the rule that says that in order to deduct interest on student loans, at least part of the interest paid during the tax year was paid during the first 60 months that payments were required to be made. The cost would be $0.4 billion over five years.

- **Expansion of the exclusion for employer-provided educational assistance –** would expand the exclusion to cover graduate courses beginning after July 1, 2000 and before January 1, 2002. The cost would be $0.4 billion over five years.

The President proposes $17.6 billion over five years and $42 billion over ten years in tax incentives to **revitalize communities** and for **poverty relief**:

- **Earned Income Tax Credit** – (see also function 600) – expands the credit by $500 for families with more than two children, lowers the phase-out rate for families with two or more children, expands the credit for married, two-earner couples. The cost would be $10.2 billion over five years and $20.5 billion over ten years. Ninety-seven percent of the five-year cost is an increase in outlays.

- **New Markets tax credit -** doubles last year's proposal. Would provide a 25 percent tax credit to corporations and investment groups that would support business development (up to $15 billion in new investment over five years) in census tracts with poverty rates of at least 20 percent or median family income which does not exceed 80 percent of the income in the area. This would cost $2.5 billion over five years and $5.1 billion over ten years.

- **Empowerment zones** – extend the wage credit for existing and ten new zones. This would cost $1.6 billion over five years and $.44 billion over ten years.

- **Expensing of brownfields remediation costs** – extend permanently. This would cost $0.5 billion over five years and $1.1 billion over ten years.

- A new tax credit for holders of **Better America Bonds**, to be issued to generate state and local government investment to preserve green space, create urban parks and clean up abandoned industrial sites. This would cost $0.7 billion over five years and $3.1 billion over ten years.

- **Increase the low-income housing tax credit per capita cap** from $1.25 to $1.75. This would cost $1.0 billion over five years and $5.7 billion over ten years.

- **Three proposals to "bridge the digital divide"** that cost $1.2 billion over five years and $2.1 billion over ten years:

    Tax deduction for companies that donate computers – expand and extend the current deduction. The expansion would allow companies to deduct more than the cost of their donation, and would allow companies to donate not only to schools but also to public libraries or community technology centers in Empowerment Zones, Enterprise Communities, and high-poverty areas. Would extend the deduction through June 30, 2004.

    Credit for corporate sponsorship – allocate $16 million in credits for corporate sponsorship in Enterprise Zones and $4 million in credits for sponsorship in Enterprise Communities.

    Tax credit for technology training – provide tax a 20 percent tax credit (up to a maximum of $1,050) per employee for costs of basic computer training or workplace literacy.

The President proposes tax incentives totaling $12.9 billion over five years and $40.1 billion over ten years to address **health care needs**:

- **Tax credit for long-term care expenses** – up to $3,000 per year, when fully phased in by 2005 The credit would phase out for singles with income over $75,000 and for couples with income over $110,000. The cost would be $8.4 billion over five years and $25.4 billion over ten years.

- **Tax credit for health insurance purchase** – provide a 25 percent nonrefundable tax credit for a newly created Medicare buy-in program. The cost would be $0.4 billion over five years and $1.6 billion over ten years.

< **COBRA insurance tax credit –** provide a tax credit to help people between jobs purchase COBRA health insurance. The cost would be $3.3 billion over five years and $10.3 billion over ten years.

< A new $1,000 **tax credit for the disabled**, to help compensate for the extra expenses the disabled encounter when they enter the workforce, phased out for singles with income over $75,000, couples with income over $110,000. The cost would be $0.6 billion over five years and $1.5 billion over ten years.

< **Tax credits for small business health insurance expenses**. Businesses with less than 50 employees would receive two-year tax credits if they buy insurance through non-profit purchasing coalitions. The cost would be $0.1 billion over five years and $0.3 billion over ten years.

< **Tax credit for vaccines for targeted diseases –** provide a credit against Federal taxes (100 percent) for qualifying organizations that purchase and distribute vaccines to developing countries. The cost would be zero over five years and $1.0 billion over ten years.

The President proposes $14.5 billion over five years and $62.9 billion over ten years in **family tax relief**:

< **Marriage penalty relief –** (marriage penalty is when two people who are married pay more in income taxes than they would pay if filed separately as singles) - would gradually raise the standard deduction for married, two-income couples by $2,150 by 2005. This proposal would provide marriage penalty relief to only those married couples who do not itemize their tax returns. **Raise standard deduction** in 2005 by $500 for married, single-income couples and by $250 for single filers. The cost would be $9.4 billion over five years and $44.8 billion over ten years.

< **Child and dependent care tax credit - make the credit refundable** so that parents with no income tax liability can receive up to $2,400. The President would also **increase the maximum rate** from 30 percent to 50 percent, and phase down the credit rate gradually for taxpayers with AGI between $30,000 and $59,000. The credit rate for taxpayers with AGI above $59,000 would be 20 percent. In addition, the President would allow **parents who stay at home with children under age one** to take advantage of the child and dependent care credit by claiming assumed child care expenses of $500. These proposals cost $4.6 billion over five years and $16.5 billion over ten years.

- **Tax credit for employer-provided child care services** – the taxpayer could claim a credit equal to 25 percent of expenses incurred to build or acquire child care facilities, operate existing facilities, or train child care workers. Taxpayers could claim a 10 percent credit for provision of child care resource and referral services. Credits cannot exceed $150,000 in a single year. The cost would be $0.5 billion over five years and $1.4 billion over ten years.

The President proposes $16 billion of tax incentives over five years and $77.3 billion over ten years to **promote expanded retirement savings**:

- **Retirement Savings Accounts (RSAs)** – Savings accounts, like traditional IRAs, where contributions are tax deductible, interest is earned tax-free, and withdrawals are taxable. When phased in by 2004, workers between the ages of 25 and 60 with at least $5,000 in earnings could contribute up to $2000 per couple ($1000 per single) to an RSA. The government would provide a 2-for-1 match on the first $100 contributed, phased out for incomes between $25,000 and $80,000 (couples) or $12,500 and $40,000 (singles).

  The government would match 1-for-1 on the next $1,800 contributed ($900 for singles). The match would phase out for incomes between $25,000 and $80,000 (couples).

  Early withdrawals would be allowed after five years and only for medical care, buying a house, or paying for college.

  In order to insure that families without tax liabilities also have an incentive to save, the government match will come in the form of a tax credit to the employer or the financial institution for 100 percent of the matching contribution.

  RSAs would cost $9.2 billion over five years and $53.8 billion over ten years. The President's proposal for RSAs is very similar to his proposal last year for Universal Savings Accounts (USAs). The CBO concluded that USA accounts represented an increase in outlays, not a tax reduction.

- **Small business pension incentives** – businesses with up to 100 employees will get a tax credit for 50 percent of the qualified contributions made to pension plans of non highly-compensated employees for three years. There would be an additional credit for the administrative costs of starting a new plan and educating employees about retirement. The President also proposes to enhance the 401(k) SIMPLE plan and several other changes affecting retirement savings, security and portability. The cost of the proposals would be $6.8 billion over five years and $23.4 billion over ten years.

The President proposes **AMT relief** for families and to **simplify tax laws**, for a total cost of $7.4 billion over five years and $38.2 billion over ten years:

< **Alternative minimum tax relief** – redesign the individual AMT to prevent the tax from falling on middle class taxpayers with large families, moving 9 million families per year off the AMT when fully phased in. The President proposes to phase out the tax preference status of dependent exemptions under the AMT, and to allow taxpayers who claim the standard deduction for regular income tax purposes to claim the same standard deduction for AMT purposes for 2000 and 2001. The cost would be $4.9 billion over five years and $32.8 billion over ten years.

In a January 4, 2000 report to Congress, the IRS Taxpayer Advocate noted that its first choice was repeal of the AMT: "Outright elimination of the AMT would do a great deal for simplification and burden reduction of the tax system."

< **Credit for filing electronic returns –** create a temporary, refundable tax credit of up to $10 for people who file federal income taxes electronically ($5 credit for people who file over the phone). This would cost $0.8 billion over five years and $1.2 billion over ten years.

< **Small business expensing** – increase the amount eligible for expensing to $25,000 in 2001 and increase for inflation in $1,000 increments thereafter. The cost would be $0.6 billion over five years and $2.0 billion over ten years.

The President proposes tax incentives encouraging **philanthropy**, totaling $4.3 billion over five years and $13.9 billion over ten years:

< **Charitable deduction for nonitemizers** – allow nonitemizers a 50 percent deduction on charitable contributions above $500 when fully phased in. This would cost $3.9 billion over five years and $13 billion over ten years.

< **Reduce excise tax on foundations** – eliminate the two-tier excise tax system and replace with a rate of 1.25 percent rate. This would cost $0.3 billion over five years and $0.8 billion over ten years.

< **Contributions of appreciated property** - increase allowable tax deductions for donated property by increasing the limit on the deduction on appreciated property from 30 to 50 percent of AGI, and the limit on deductions for donations of appreciated property to private foundations from 20 to 30 percent of AGI. This would cost $0.1 billion over five years and

$0.2 billion over ten years.

The President proposes several tax incentives totaling $4 billion over five years and $9.3 billion over ten years meant to address **energy efficiency and environmental improvement**:

- **Tax credit of up to 20 percent of qualified investment in efficient building equipment technologies,** subject to a cap and expiring after 2004. This would cost $0.2 billion over five years.

- **Tax credit of up to $2,000 for purchase of newly constructed energy efficient homes**, available for homes purchased between January 1, 2001 and January 1, 2005. This would cost $0.6 billion over five years and $0.7 billion over ten years.

- **Tax credit for purchase of highly fuel-efficient vehicles –** 10-percent credit of up to $4,000 for the cost of a hybrid electric vehicle. This would cost $0.6 billion over five years and $0.7 billion over ten years.

- **Tax credits for producing electricity from certain sources,** totaling $1.0 billion over five years and $2.1 billion over ten years:

  "Closed-loop" biomass tax credit – extend for 2 ½ years the current 1.5 cent per kilowatt hour tax credit for electricity produced from "closed-loop" biomass, including plants or trees specifically grown for use as biomass.

  "Open-loop" biomass tax credit – expands the definition of biomass eligible for the 1.5 per kilowatt hour tax credit to include certain forest-related resources and agriculture and other sources.

  Cofiring biomass and coal credit – adds a 0.5 cent per kilowatt hour tax credit for electricity produced by cofiring biomass in coal plants from 2001 through 2005.

  Methane from landfills credit – adds a 1.5 cents per kilowatt hour credit for electricity produced from landfills not subject to EPA's New Source Performance Standards/Emissions Guidelines (NSPS/EG) and 1.0 cent per kilowatt hour for landfills subject to NSPS/EG, for facilities placed in service between December 31, 2000 and January 1, 2006.

- A new **15 percent tax credit for rooftop photovoltaic and solar water heating systems** (other than for swimming pools), up to $2,000 for photovoltaic and $1,000 for solar water heating systems, expiring in 2008 for photovoltaic systems and in 2006 for solar water heating systems. This would cost $0.1 billion over five years and $0.4 billion over ten years.

The President proposes to **modify certain trade and tariff provisions**, with a total revenue loss of $3.2 billion over five years and $8.2 billion over ten years:

< **Puerto Rico economic activity tax credit** – modify the phase-out of the economic-activity based credit by opening it to newly established businesses during the phase-out period, effective January 1, 2000 and extending the phase-out period through January 1, 2009. This would cost $0.5 billion over five years and $5.6 billion over ten years.

< **Generalized System of Preferences –** extend through June 30, 2004. Modify other trade provisions. This would cost $3.4 billion over five years and $4.1 billion over ten years.

<u>The President's Tax Increases</u>

The President proposes a series of provisions (95 specific proposals) that increase federal revenues by $91 billion over the period 2001-2005, and by $181 billion over the period 2001-2010. Over ten years, these proposals include $66 billion in receipts from tobacco legislation, $96 billion in new taxes from the elimination of unwarranted benefits, and $19 billion from reinstating expired taxes and other proposals.

< The President's budget includes $31 billion in **receipts from tobacco tax increases** over five years and $66 billion over ten years. The President accelerates the scheduled 5-cents per pack tax increase to October 1, 2000, and adds an additional 25-cents per pack excise tax. Beginning in 2003, the President proposes to levy an assessment on tobacco manufacturers if the youth smoking rate is not reduced by 50 percent.

The President proposes $96 billion over ten years in new taxes from **eliminating "unwarranted" tax benefits** and adopting other revenue measures including:

< $23 billion over ten years from proposals to **limit benefits of corporate tax shelter transactions**, including **modify corporate-owned life insurance** (COLI) rules. The President proposes 15 specific tax-increase proposals to limit corporate tax shelters.

< $73 billion over ten years from other proposals including:

- Modify rules for capitalizing policy acquisition costs of **life insurance companies**;

- **Require recapture** of policyholder surplus accounts;

- Repeal lower-of-cost-or-market **inventory accounting**;
- Subject investment **income of trade associations to tax**;
- Replace **sales-source rules with activity-based rules**;
- Subject **signing bonuses** to employment taxes;
- Reinstate **Oil Spill Liability** Trust Fund tax;
- **Repeal percentage depletion** for non-fuel minerals mined on Federal and formerly Federal lands.
- A **shift from future years forward to 2005** by modifying deposit requirements for FUTA.

The President proposes $19 billion over ten years in increased receipts rom reinstating old taxes and through other proposals including:

< **Reinstating the Superfund corporate environmental surtax and the Superfund excise taxes**.

< **Raising taxes on domestic air passenger tickets and flight segments, international departures and arrivals, and domestic air cargo** by converting excise taxes deposited in the Airport and Airway Trust Fund to cost-based user fees for FAA services.

< A proposal to require **FDIC to assess fees** for examination of FDIC-insured state banks and bank holding companies.

< A proposal to restore **premiums for the United Mine Workers** of America Combined Benefit Fund.

< A proposal to maintain the **Federal Reserve surplus transfer** to the Treasury.

< A proposal to **roll back to pre-1999 levels the higher retirement contributions** required of Federal employees by the Balanced Budget Act of 1997.

CLINTON TAX PROPOSALS
($ Billions)

	2000	2001	2002	2003	2004	2005	2001-05
Tax Relief Categories:							
Education tax incentives	-0.1	-0.7	-2.4	-2.8	-3.9	-4.4	-14.2
Community revitalization and poverty relief	--	-2.5	-2.8	-3.6	-4.1	-4.6	-17.6
Health care tax incentives	--	-0.1	-1.3	-2.8	-3.9	-4.7	-12.9
Marriage penalty and child care	--	-0.4	-1.5	-2.6	-3.6	-6.4	-14.5
Retirement savings incentives	-(*)	0.1	-1.0	-3.3	-4.8	-8.0	-17.0
AMT and simplification	-0.2	-0.9	-1.2	-1.4	-1.8	-2.2	-7.4
Philanthropy incentives	--	-0.6	-1.2	-0.8	-0.9	-0.9	-4.3
Energy efficiency and environment	--	-0.2	-0.4	-0.7	-1.2	-1.5	-4.0
Electricity restructuring	--	*	*	*	*	*	0.1
International trade	-(*)	-0.5	-0.8	-0.9	-0.8	-0.2	-3.2
Miscellaneous provisions	-(*)	-0.1	-0.2	-0.2	-0.2	--	-0.6
Subtotal, tax relief	**-0.2**	**-5.9**	**-12.7**	**-19.1**	**-25.1**	**-32.9**	**-95.8**
Revenue Raisers:							
Receipts from tobacco legislation	0.4	4.1	3.7	3.5	10.1	9.7	31.2
Total of 15 tax increase proposals to limit benefits of corporate tax shelter transactions	*	2.3	2.0	2.0	2.1	2.2	10.7
Total of 68 tax increase proposals to eliminate unwarranted benefits and adopt other revenue measures	0.1	3.5	7.2	7.6	8.6	9.5	36.4
Total of 11 other tax increase proposals, such as Superfund taxes and fees	0.2	5.0	1.5	2.0	2.2	2.4	13.0
Subtotal, revenue raisers	**0.8**	**15.0**	**14.4**	**15.2**	**23.0**	**23.8**	**91.3**
Net Revenue Proposals	**0.5**	**9.1**	**1.7**	**-3.9**	**-2.1**	**-9.2**	**-4.4**

*Less than $50 million